


ANNUAL REPORT 1967



**KENTING**



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## DIRECTORS

J. E. JOHNSON

Vice President and General Manager  
Atlas Equipment Ltd.

Chairman

G. F. FORT

President, Accurate Equipment Ltd.

President

G. J. FLANNERY

Vice President, Director  
Petroleum Development Ltd.

Director

J. K. FARMER

Managing Engineer

Director

L. E. HERRINGTON

President, Petroleum Development Ltd.

Director

J. B. HUGHES

Chairman, Texas Instruments Engineering Limited

Director

G. J. JOHNSON, Managing Director

President, J. J. Johnson & Associates

Director

G. J. JOHNSON

President, Managing Director, Limited  
General Services International  
Corporation Ltd.

Director

G. J. JOHNSON & CO.

Chairman, Hughes, Tucker, Marshall & Howard

Director

J. B. JOHNSON, JAMES

President, Gulf of Mexico

Director

R. C. DOLAN

President, Ward & Co. Ltd.

Director

A. E. WALLICH

President, A. E. Wallich International Ltd.

Director

D. J. PETERSON

Vice President, D. J. Peterson & Co. Ltd.

Director

G. J. JOHNSON

Vice President, Managing Director  
Hughes, Tucker & Co. Ltd.

Director

G. J. JOHNSON

Vice President, Managing Director  
Hughes, Tucker & Co. Ltd.

Director

G. J. JOHNSON

Vice President, Managing Director  
Hughes, Tucker & Co. Ltd.

Director

G. J. JOHNSON

Vice President, Managing Director  
Hughes, Tucker & Co. Ltd.

Director

**KENTING**



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## OFFICERS

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D. N. KENDALL  
President

A. F. SOUTAR  
Vice President

L. R. HERRINGTON  
Vice President

G. F. COOTE  
Vice President

B. F. KENNERLY  
Secretary

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## HEAD OFFICE

Toronto International Airport,  
Malton, Ontario.  
Telephone 677-6721

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## DIVISIONAL OFFICES

KENTING AVIATION DIVISION  
Toronto International Airport,  
Malton, Ontario.  
Telephone 677-6721

PETROLIA DRILLING DIVISION  
600 - 6th Ave. S.W., Calgary, Alberta.  
Telephone 263-2980

ACCURATE EXPLORATION DIVISION  
524 - 11th Ave. S.W., Calgary, Alberta.  
Telephone 263-1701

KLONDIKE HELICOPTER DIVISION  
No. 1 Hangar, McCall Airport,  
Calgary, Alberta.  
Telephone 277-8526

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## OPERATIONS OFFICES

Toronto; Calgary; Edmonton;  
Whitehorse, Y.T.; Fort Smith, N.W.T.;  
Hay River, N.W.T.; Gillam, Manitoba;  
Georgetown, Guyana.

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## TRANSFER AGENTS

Royal Trust Co.

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## AUDITORS

Price Waterhouse & Co.

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## SOLICITORS

Fraser Beatty Tucker McIntosh  
& Stewart

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## STOCK EXCHANGE LISTING

Canadian Stock Exchange

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## DIRECTORS

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J. C. ANDERSON  
Vice President and General Manager,  
Allied Equipment Ltd. Calgary

G. F. COOTE  
President, Accurate Exploration Ltd. Calgary

D. J. FLEMING  
Vice President, Contracts  
Petrolia Oilwell Drilling Ltd. Calgary

J. K. FARRIES  
Consulting Engineer Calgary

L. R. HERRINGTON  
President, Petrolia Oilwell Drilling Ltd. Calgary

J. R. HUGHES  
Chairman, Royal Securities Corporation Limited Montreal

C. C. HUSTON, Mining Engineer  
President, C. C. Huston & Associates Toronto

D. N. KENDALL  
President, Kenting Aviation Limited  
Director, Canadian Enterprise Development  
Corporation Ltd. Toronto

D. A. McINTOSH, Q.C.  
Fraser, Beatty, Tucker, McIntosh & Stewart Toronto

J. H. MOWBRAY JONES  
Director, Bank of Montreal Montreal

P. F. OSLER  
Partner, Mead & Co. Limited Montreal

A. E. PALLISTER  
President, A. E. Pallister Consultants Ltd. Calgary

D. S. PATERSON  
Vice President, N. M. Paterson & Sons Ltd. Winnipeg

G. D. ROSS  
Vice President, Administration  
Petrolia Oilwell Drilling Ltd. Calgary

A. F. SOUTAR  
Vice President and General Manager,  
Field Aviation Company Limited Calgary

J. W. STRATH  
President, Klondike Helicopters Limited Calgary

A. VANDEN BRINK  
Vice President, Operations  
Petrolia Oilwell Drilling Ltd. Calgary

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## TO THE SHAREHOLDERS:

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The major development of your company in 1967 was the decision to make a number of mergers and thus both to diversify and increase the per share earnings of your company. Here is a brief review of the mergers:

Boundary Drilling Ltd. and its operating subsidiary Petrolia Oilwell Drilling Ltd. through the issuance of Kenting shares;

Accurate Exploration Ltd., its subsidiary A. E. Pallister Consultants, and other investments, through the issuance of Kenting shares;

Foothills Aviation Limited and its operating subsidiary, Klondike Helicopters, for cash and Kenting shares.

### POLICY FOR GROWTH

Underlying these mergers is the Kenting policy for growth which has been formulated over the last few years. In addition to growth from within, the expansion policy is to continue to investigate acquisitions and bring other companies into the group. Such companies will be required to meet carefully defined specifications. They must provide services which are complementary to the Kenting Exploration Concept (explained on the following pages), and they must fit in with the Kenting management capability.

The Kenting management intends to create a major international service organization in support of mineral resource industries, having special expertise in handling technological and logistic problems in remote areas. The first phase of this policy for growth will be within the domestic petroleum and mining industries and the development of services for governments.

### ORGANIZATION POLICY

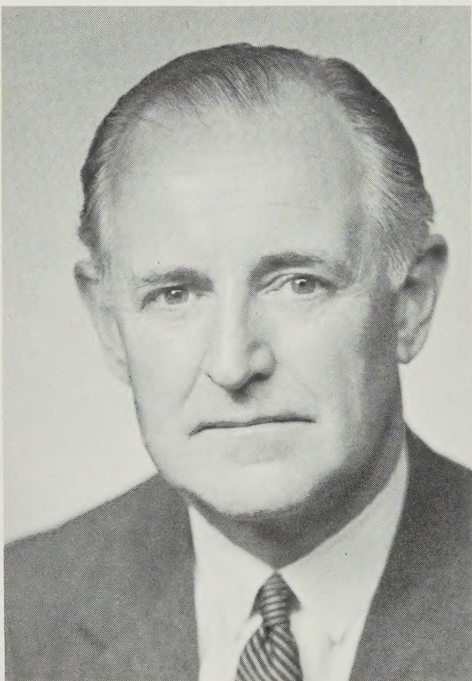
Through these 1967 mergers, Kenting has acquired a number of young, experienced and well-trained management and operating personnel. The company has also gained the benefit of a variety of excellent transportation and exploration equipment.

The company has adopted and implemented an organizational policy under which the merged companies will operate as substantially autonomous divisions with centralized financial and budget control. This will help Kenting to make a smooth transition into a larger and diversified company, and to achieve the best utilization of the outstanding personnel that have been brought onto the team as a result of the mergers. Communication and co-operation between divisions in the areas of sales and service will be aggressively stimulated.

### FINANCIAL

As previously reported to you in the interim financial statement, revenue of your companies in 1967 on a pooling of interest basis was \$8,310,771, an increase of 8.5% over what it would have been in 1966, had we then been pooled. Cash flow was about the same as the previous year at \$1,537,103.

On page 21 of this report you will see a four year review which shows the actual growth and earnings of your company as reported



D. N. KENDALL  
President

in previous Annual Reports. On this basis, we earned 63c per share in 1966 compared with about \$2.00 per share in 1967. We believe, therefore, that the new earnings were purchased on a basis which was, and will continue to be, profitable for our shareholders.

The actual mergers took place on September 20, 1967, and December 29, 1967. In order to give shareholders a constructive comparison we have shown on page 20 of this Annual Report a financial summary on the same pooling of interest basis as if the companies had been together for four years instead of a few months. This table has been adjusted to show the earnings which would have been made had each year been on a comparable basis without the distortion caused by certain tax losses then available.

The consolidated statement of income reported on by our auditors shows net income for the year at \$683,878, compared with \$776,023 for 1966, had we then been pooled. The apparent decline of \$92,145 is caused largely by our setting up deferred income taxes amounting to \$356,724 compared to \$149,279 for 1966, when certain tax loss carry-forward positions were available. The company in fact paid only \$69,781 in income taxes but your Directors felt that the full provision for possible future taxes should be made as a matter of conservative accounting practice. In addition, in the last quarter, we had to absorb certain large non-recurring expenses associated with the costs of carrying out our mergers.

While comparison of our 1967 pooled earnings with those of 1966 is in many ways difficult, it will be even more difficult to compare 1968, our first year as a group, with the results of 1967. We have brought the companies together to fit a concept and because we believe that jointly they can grow faster and earn more than each alone. Moreover, as a group, we expect to derive certain economic benefits in the areas of marketing, operations, management and purchasing whereas in 1967 we had to absorb the cost of merging without any of the corresponding benefits.

Some explanations are also needed of the \$2.00 per share figure for earnings which has been shown. We have followed the generally accepted accounting rules which call for using the "weighted average number of common shares outstanding" as a basis for earnings per share calculations. In our case, this came to 277,823 shares. At year end we had 289,823 shares outstanding.

We paid the equivalent of \$1,000,000 for Foothills Aviation Limited, of which 50% was in cash. Under the pooling of interest concept, we are only able, therefore, for 1967 to take into earnings 50% of their earnings. This excluded \$69,745 or about 25c per share, although the latter would in a full year be offset to some extent by the cost of interest on the \$500,000 of cash paid out. The full earnings of Foothills are, of course, available to your company in 1968 and thereafter.

To get a true measure and comparison of our earnings per common share, we have taken out \$128,000, which is the annual sum required to service our issued Class A and Class B Preferred Shares. This is equivalent to 46c per share. However, these securities were not issued until late in 1967 and in fact only the equivalent of 11c per share was earned in 1967 by the Preferred Shares. Thus, for 1967, there are actual additional earnings of 35c per share which accrue to the Common Shares.

Investment in additions to property and equipment during the year totalled \$1,379,655.

Your Directors are most conscious of the fact that there exist 154,000 convertible Preferred Shares and 64,000 Warrants which could, and probably will, be converted into Common Shares at various times between now and December 31, 1974. The maintenance and increase in per share earnings will, therefore, require continuous expansion of your company in the coming years. Plans for this have been laid.

## OTHER CORPORATE MATTERS

### Tamarack Petroleums

It is common practice by oilwell drilling companies to carry out a small measure of drilling activity for their own account. They may also purchase existing oil and gas production where it fits their financial picture. For various good reasons in past years, Petrolia Drilling acquired some oil and gas production interests which are included in the financial statements. Tamarack Petroleums was set up to manage these interests along with its regular business of oilwell management.

A policy decision has now been taken that Petrolia will no longer carry out drilling for its own account and thereby preclude any possible conflict of interest with clients. The company does however intend to build up the services of oilwell management which fits nicely with the Kenting Exploration Concept. Tamarack will now carry out this management function as a wholly owned subsidiary of Kenting.

### CDP Computer Data Processors Ltd.

Through the merger with Accurate Exploration, Kenting now owns approximately 40% of this large computer centre in Calgary. CDP was incorporated in 1966 and began operations in 1967. Due to equipment and technological delays, the company was unable to take full advantage of the 1966-67 winter upswing in seismic activity. It therefore suffered larger than anticipated starting up costs, and showed a loss position for the fiscal year ending June 30, 1967. With the upturn in the winter seismic program, the company has begun to show monthly profits.

### Company Name Change

Kenting Aviation Limited is no longer a descriptive name for our many activities. The company is therefore seeking your approval for a new By-Law changing the name to Kenting Limited.

### Huntec Ltd.

Subsequent to the year end, a proposal was made to the shareholders of Huntec Ltd. to acquire all the outstanding shares of that company in exchange for shares of Kenting. In this manner, Huntec will shortly become part of the Kenting group for approximately 3% of Kenting shares outstanding, provided that certain conditions of our offer are met.

Huntec is one of the most prominent companies in the world engaged in mining geophysics. It also has a division engaged in the development of new geophysical instrumentation.

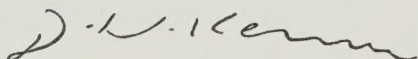
## CONCLUSION

This has been a good year for your company, thanks in large measure to the acquisition policy.

The plans for 1968 call for continued examination of other companies that could be complementary to Kenting, and for aggressive implementation of the Kenting Exploration Concept.

The outstanding feature of the merged Kenting is the ease with which the senior managements of the original companies have settled down together and now form a team, each contributing to the other.

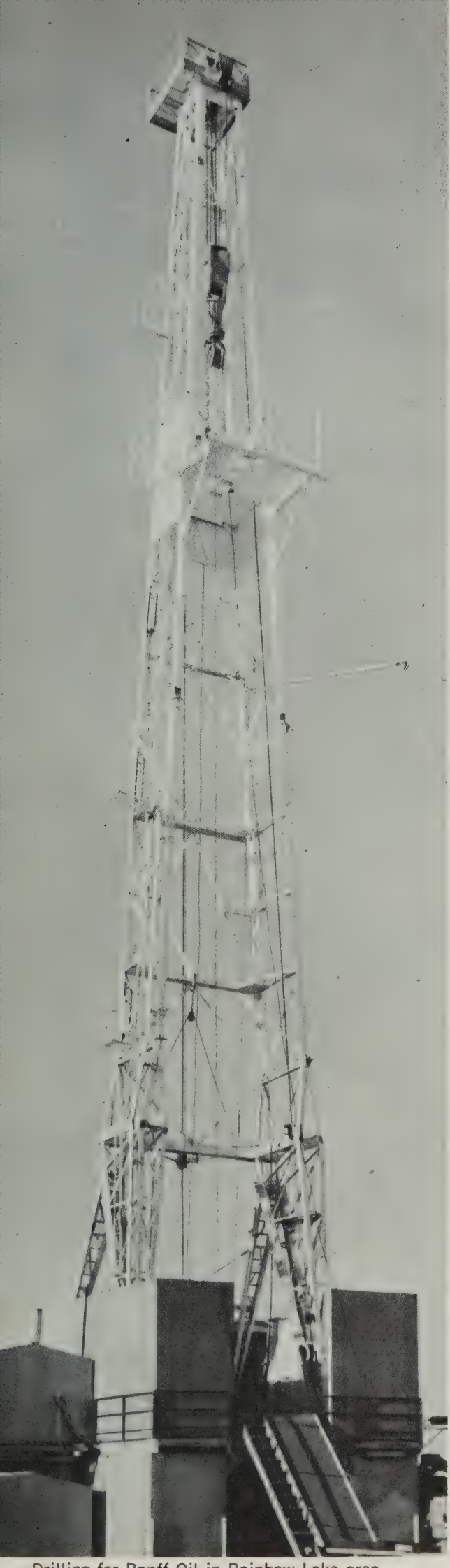
In closing, therefore, your Directors wish to express appreciation to the staff at all levels for their support, which made the merging of the companies not only possible, but a pleasure.



D. N. KENDALL, President.

# KENTING





## THE KENTING EXPLORATION CONCEPT

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### THE SERVICE PACKAGE

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The Kenting concept is to offer an integrated service for exploration in remote areas to the petroleum and mining industries, and to governments.

Kenting may be the first company in the world which can offer all of the following services in one package:

- Planning and Logistics
- Comprehensive Communication Systems
- Geological Computer Evaluation
- Support for Aerial Survey
- Fixed Wing Air Transportation
- Seismic Exploration
- Helicopter Support
- Geophysical Computer Evaluation
- Geophysical and Geological Interpretation
- Drilling Management
- Oilwell Drilling
- Completion and Production Management

This service package, or derivations of it, offers substantial benefits to the client. He deals only with one organization, thus saving supervisory time and costs. Certain major steps of the co-ordinating role are carried out by Kenting rather than the client, saving considerable client time.

The total cost to the client is lower by virtue of the fact that Kenting Divisions share knowledge and experience. And the job is completed sooner through integration of steps that would normally be provided by separate companies.



Marine seismic crew in operation, Mackenzie River, N.W.T.



Bell Jet Ranger and FH-1100 series turbine helicopters.



Canso flying in support of a Sable Island drilling operation.

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## DIVISIONAL CONTRIBUTION TO THE KENTING CONCEPT

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The Accurate Exploration Division has conducted seismic surveys throughout most of Northern and Western Canada, and has acquired extensive experience in handling the most difficult transportation and communications problems. The division has a large geophysical consulting group and a major interest in a digital processing centre.

The Petrolia Drilling Division specializes in oilwell drilling in remote areas where planned operations are essential. Its rigs are self-contained units relatively independent of centralized supplies or parts replacement. The company is one of the most advanced in operational research, making profitable use of scientific analysis of holes previously drilled to cut drilling time on future projects. Through a subsidiary, Petrolia also manages producing wells.

Kenting Aviation Division provides aircraft in support of aerial surveys, and offers airlifts and charters. Kenting may be the only aviation company that has operated on all continents, including Antarctica, in the course of completing contracts in over 50 countries. This division has provided aircraft for geophysical and lake pollution surveys and played a leading role in the development of water bomber techniques.

Klondike Helicopter Division has extensive experience providing helicopter support for the mining and petroleum industries throughout Canada. The company has also worked for the Canadian government, and has provided helicopters for a major aerial mapping project in Guyana.

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## EQUIPMENT AND PERSONNEL RESOURCES

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The entire Kenting group of companies has 450 employees, all of whom are technically skilled. Some of the major equipment includes:

Survey	Three seismic recording crews equipped for land, muskeg and marine surveys.
Drilling Rigs	Nine, with depth capabilities ranging from 3,000 to 16,000 feet.
Transportation	22 fixed wing aircraft including 3 water bombers and one executive jet; 26 helicopters; 12 tracked vehicles; 2 boats; 1 barge; and 20 trucks.
Computers	(Approximately 40% owned) CDC 3300 Digital Computer; SIE Analogue-Digital-Analogue Tape Converter.
Supporting Services	5 camps, printing, office building, 2 shops.

## OPERATIONAL HIGHLIGHTS

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### KENTING AVIATION DIVISION

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Kenting has now completed more than one year of successful operation on the five-year ice reconnaissance contract with the Federal Government. During the five years, your company will gross over \$5,000,000 by flying its two DC4s throughout the Arctic, Great Lakes and St. Lawrence areas. The aircraft carry sophisticated electronic equipment and government personnel to assist in locating major ice formations and reporting ice movements.

All three of the company's water bombers are under contract for 1968 including a renewed one year contract with the French Government. The company's B17 survey aircraft will be working for the Danish Government in Greenland during the summer of 1968.

The company-leased executive jet remains under contract to the same company as in 1967. Continued efforts are being made to expand executive aircraft management and charter business.

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### PETROLIA OILWELL DRILLING DIVISION

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Petrolia acquired its 9th drilling rig late in 1967 – a Brewster N-75 which can drill to 16,000 feet. Petrolia expects an increasing demand for deeper drilling in Canada and made this investment in order to be fully prepared. Depth capability of company rigs now ranges from 3,000 to 16,000 feet.

The year 1967 was successful, with company rigs operating in Nova Scotia, Quebec, Saskatchewan, Alberta and British Columbia. Considerable work was done in the Rainbow-Zama area of North-western Alberta. The outlook for 1968 is equally favorable.

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## ACCURATE EXPLORATION DIVISION

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Accurate's field crews conducted seismic land surveys in the Northwest Territories, Northwest and Central Alberta and Southern Saskatchewan during 1967. In addition to continuing clients, six new companies used Accurate's services.

For remote seismic work during the summer, the division's new FH-1100 series turbine helicopter was utilized to transport men and materials to and from the job and the camp. By increasing crew productivity, the cost per mile of the survey was reduced compared to conventional track operations.

During 1967, Accurate's subsidiary, A. E. Pallister Consultants Ltd., continued its role as one of the principal firms of petroleum geophysical consultants in Canada. Services were rendered to 40 oil companies operating in Western Canada, where the main emphasis was in the delineation of Rainbow reef oil fields. Several additions were made to the staff, including two prominent geophysicists. The scope of the operation was broadened to include geological consulting, preparatory to entering the international exploration consulting field in 1968.

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## KLONDIKE HELICOPTER DIVISION

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The most important change in Klondike in 1967 was the acquisition of the first FH-1100 series turbine helicopter to be operated in Canada. This machine did a great deal of flying in the Rainbow area and also in Stewart, B.C., one of the most difficult areas for flying in North America. The company established that this machine has an important place in commercial helicopter operations and has since added three more to its fleet.

The most significant new type of operation undertaken last year was the provision of the helicopters for a mapping survey in Guyana, South America, for a Canadian surveying and mapping company under the auspices of the Canadian Government. Klondike sent two helicopters to that country, and has decided to carry on a continuing operation.

Another project was at Gillam, Manitoba, for one of Canada's major mining companies. The company also continued to be very active on a \$120 million mining development at Anvil Mines in the Yukon. At the end of the year Klondike established a new base in Hay River, N.W.T., a staging point for oil exploration to the North and West. The company is also participating in a very active mineral exploration area around Coppermine River in the Northwest Territories. Forest protection services were continued in the Fort Smith, N.W.T., and Whitehorse, Y.T., areas.



**KENTING**



**KENTING AVIATION LIMITED  
AND SUBSIDIARIES**

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**CONSOLIDATED FINANCIAL REPORT**

For the year ended December 31, 1967

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**PRICE WATERHOUSE & CO.**

Calgary, Alberta,  
February 7, 1968

**AUDITORS' REPORT**

To the Shareholders of  
Kenting Aviation Limited:

We have examined the consolidated balance sheet of Kenting Aviation Limited and subsidiaries as at December 31, 1967 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination of the financial statements of Kenting Aviation Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of the accounting records as we considered necessary in the circumstances. We have relied upon the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion these financial statements present fairly the financial position of the companies as at December 31, 1967 and the results of their operations and source and application of their funds for the year then ended on the basis described in Note 1, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Price Waterhouse & Co.*

# KENTING AVIATION LIMITED AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET

ASSETS		
	AS AT DECEMBER 31	
	1967	1966 (Note 1)
CURRENT ASSETS:		
Cash . . . . .	\$ 605,959	\$ 115,459
Marketable securities (quoted market value 1967 – \$9,488; 1966 – \$63,925) . . . . .	12,193	70,346
Accounts receivable –		
Trade . . . . .	1,583,500	1,380,482
Other . . . . .	104,017	172,471
Receivable under debenture . . . . .	–	200,000
Inventories, at cost –		
Contracts in progress . . . . .	780,388	912,154
Supplies and materials . . . . .	289,901	120,896
Prepaid expenses . . . . .	80,633	60,134
	3,456,591	3,031,942
DEFERRED RECEIVABLE (Note 2) . . . . .	750,000	–
INVESTMENTS IN AND ADVANCES TO OTHER COMPANIES, at cost less allowances for doubtful advances (Note 3) . . . .	340,600	376,755
PROPERTY AND EQUIPMENT, at cost (Notes 1 and 4) . . . . .	7,863,774	7,294,162
Less – Accumulated depreciation and depletion . . . . .	(3,025,669)	(3,038,769)
	4,838,105	4,255,393
COST OF INVESTMENT IN SUBSIDIARIES IN EXCESS OF BOOK VALUE, at date of acquisition (Note 1) . . . . .	309,431	–
DEPOSITS AND OTHER ASSETS, at cost . . . . .	52,013	70,121
Approved on behalf of the Board:		
D. N. KENDALL, Director		
G. D. ROSS, Director		
	\$9,746,740	\$7,734,211

## CONSOLIDATED BALANCE SHEET

### LIABILITIES

AS AT DECEMBER 31

	1967	1966 (Note 1)
<b>CURRENT LIABILITIES:</b>		
Bank advances, secured . . . . .	\$ 543,205	\$ 455,193
Accounts payable and accrued . . . . .	1,590,490	1,509,169
Income taxes payable . . . . .	52,549	119,284
Long term debt due within one year . . . . .	771,402	665,067
	2,957,646	2,748,713
7¼% BANK LOANS, secured (Note 2) . . . . .	750,000	—
LONG TERM DEBT, secured (Note 5) . . . . .	1,830,043	1,650,153
MINORITY INTEREST IN SUBSIDIARIES (Note 1) . . . . .	6,785	120,824
	5,544,474	4,519,690
DEFERRED INCOME TAXES (Note 6) . . . . .	1,104,687	666,401
	6,649,161	5,186,091
<b>SHAREHOLDERS' EQUITY</b>		
<b>CAPITAL STOCK: (Note 7)</b>		
142,000 6% cumulative redeemable convertible Class "A" preferred shares of a par value of \$12.50 each (Authorized — 142,000 shares) . . . . .	1,775,000	1,775,000
12,000 6% cumulative redeemable convertible Class "B" preferred shares of a par value of \$30 each (Authorized — 12,000 shares) . . . . .	360,000	360,000
289,823 common shares of a par value of 50c each (Authorized — 1,000,000 shares) . . . . .	144,911	136,661
PAID IN SURPLUS (Note 7) . . . . .	—	—
RETAINED EARNINGS (Notes 8 and 10) . . . . .	817,668	276,459
	3,097,579	2,548,120
CONTINGENT LIABILITIES (Note 9)		
	\$9,746,740	\$7,734,211

## KENTING AVIATION LIMITED AND SUBSIDIARIES

### CONSOLIDATED STATEMENT OF INCOME

	FOR THE YEAR ENDED DECEMBER 31	
	1967	1966 (Note 1)
Operating revenue . . . . .	\$8,279,573	\$7,612,371
Sundry income . . . . .	31,198	45,472
	8,310,771	7,657,843
Costs and expenses:		
Cost of operating . . . . .	5,556,414	5,061,592
Administration and general . . . . .	1,006,913	841,542
Interest on long term debt . . . . .	140,560	94,887
Current income taxes (Note 6) . . . . .	69,781	128,632
	6,773,668	6,126,653
	1,537,103	1,531,190
Provision for depreciation . . . . .	508,547	486,325
Provision for depletion . . . . .	26,950	45,534
Deferred income taxes (Note 6) . . . . .	356,724	149,279
	892,221	681,138
Income before special items . . . . .	644,882	850,052
Special items:		
Profit on disposal of capital assets, net of income tax provision . . . . .	40,558	35,279
Depreciation adjustment, net of income tax provision (Note 4) . . . . .	68,183	—
Write off excess of cost over related net assets of companies purchased (Note 1) . . . . .	—	(59,992)
	108,741	(24,713)
Income before the following deduction . . . . .	753,623	825,339
Portion of net income of "pooled companies" applicable to purchase (Note 1) . . . . .	69,745	49,316
Net income for year . . . . .	\$ 683,878	\$ 776,023

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended December 31, 1967

Balance, December 31, 1966 (Note 8) . . . . .		\$ 300,091
Net income for year . . . . .		683,878
		983,969
Less – Deferment of prior year's gain on sale of investments (Note 3) . . . . .	\$ 88,662	
Deficit of subsidiary company in which majority interest acquired during year . . . . .	10,432	99,094
		884,875
Less – Dividends paid:		
Class A Preferred . . . . .	3,210	
Common . . . . .	63,997	67,207
Balance, December 31, 1967 . . . . .		\$ 817,668

## CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	FOR THE YEAR ENDED DECEMBER 31	
	1967	1966 (Note 1)
Source of funds:		
Gross revenue from all sources . . . . .	\$8,310,771	\$7,657,843
Less – Costs of operating, administration and general expenses, long term debt interest and current income taxes . . . . .	6,773,668	6,126,653
Funds from operations . . . . .	1,537,103	1,531,190
Long term borrowing . . . . .	1,118,585	1,557,389
Proceeds from property and equipment disposals . . . . .	474,711	210,669
Sale of common shares for cash . . . . .	74,250	219,704
Other . . . . .	1,931	(61,547)
7¼% bank loans . . . . .	750,000	—
	3,956,580	3,457,405
Application of funds:		
Additions to property and equipment . . . . .	1,379,655	1,887,796
Dividends paid . . . . .	67,207	37,324
Investment in other companies . . . . .	62,939	172,152
Repayment of long term debt . . . . .	938,695	809,721
Cash requirements on acquisition of subsidiaries . . . . .	542,368	—
Deferred receivable . . . . .	750,000	—
	3,740,864	2,906,993
Increase in working capital . . . . .	\$ 215,716	\$ 550,412

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1967

### NOTE 1. PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of the Company's subsidiaries all of which are wholly owned with the exception of two companies where the minority interests are not significant.

As the result of a share exchange in September 1967, pursuant to an agreement dated July 27, 1967, Boundary Drilling Ltd. and subsidiaries and Accurate Exploration Ltd. and subsidiaries became subsidiaries of the Company. Such exchange has been accounted for on a "pooling of interests" basis and accordingly the operations of Boundary and Accurate for the full year have been included in the consolidated statement of income.

In December 1967, pursuant to an agreement dated November 30, 1967, the Company purchased, for cash, 50% of the outstanding share capital of Foothills Aviation Limited and its subsidiary and acquired the remaining 50% through a share exchange. This acquisition has been accounted for on a "partial pooling of interests" basis. Accordingly, the operations of Foothills for the full year have been included in the consolidated statement of income except that, the portion of Foothills' net income which relates to the share capital purchased for cash by the Company (50%) has been excluded from consolidated net income.

Upon consolidation, on a "pooling of interests" basis, the excess of the issue value of Kenting capital stock issued, over the stated value of the outstanding capital stock of Boundary, Accurate and Foothills received in exchange, has been charged to paid in surplus in the amount of \$613,292 and retained earnings in the amount of \$1,386,882. The shares purchased for cash have been treated as a "purchase" for accounting purposes and the excess of the cash paid for the investment over the relative net assets of Foothills at date of acquisition represents an intangible asset and is shown as such in the consolidated balance sheet in the amount of \$309,431. In the opinion of management, there is no present indication that this intangible asset has a determinable life or existence and accordingly it is not being amortized.

Included in the consolidated financial statements of certain subsidiaries in prior years, were amounts which arose when the excess of consideration paid for investments in subsidiaries exceeded net book values at acquisition dates. Where such excess was attributable to tangible equipment it was included in the costs thereof in the consolidated financial statements; in those other instances where such excess was not represented by tangible assets and there was no longer any intangible value represented, it was charged to income.

For comparative purposes the 1966 financial statements have been restated from those previously reported to include the subsidiary companies acquired during 1967, accounted for on a "pooling of interests" basis.

### NOTE 2. DEFERRED RECEIVABLE--\$750,000; 7 1/4% BANK LOANS--\$750,000:

The deferred account receivable represents an oil production payment which, it is estimated, will be recovered in two years. This payment was financed through bank loans. Although these loans are evidenced by demand notes, the bank has indicated that it is prepared to accept repayment out of the net proceeds from production.

### NOTE 3. INVESTMENTS:

A subsidiary company, acquired by Kenting in 1967, sold its investments in a subsidiary company and an affiliated company in 1966 to a newly incorporated company. The gain of \$88,662 resulting from this sale, was credited to retained earnings of the subsidiary company in 1966.

In connection with the sale, a minority interest investment was acquired in the new company. The new company incurred losses in its initial year of operations. The Company's share of these

losses amount to approximately \$130,000 (which share includes accrued interest payable by the new company of \$20,484) to date. The new company has shown profitable operations in current months and management is of the opinion that the losses will not represent a permanent diminution of the investment in the new company. However, in view of the financial position of the new company, provision was made in 1967 to defer recognition of the 1966 gain of \$88,662 and provision was made in 1967 for the uncollected interest of \$20,484.

#### NOTE 4. PROPERTY AND EQUIPMENT:

	1967	1966
Aircraft division . . . . .	\$3,532,464	\$3,679,100
Oil well drilling division . . . . .	2,575,350	2,075,285
Seismic division . . . . .	1,224,682	1,050,638
Oil and gas properties . . . . .	531,278	489,139
	7,863,774	7,294,162
Less —		
Accumulated depreciation . . . . .	2,953,185	2,993,235
Accumulated depletion . . . . .	72,484	45,534
	3,025,669	3,038,769
	\$4,838,105	\$4,255,393

Depreciation of property and equipment is provided at rates which will amortize cost, less estimated salvage values, over the estimated service lives of the respective assets. As a result of establishing salvage values and conforming depreciation policies within the Company and subsidiaries an adjustment of \$137,545 less an applicable provision for deferred income taxes of \$69,362 has been included in the statement of income as a special item.

The companies use the full cost method of accounting for interests in oil and gas properties whereby all costs related to the exploration for and development of oil and gas reserves, whether productive or unproductive, are capitalized. Depletion of costs is computed by a composite unit of production method based on total estimated proven reserves.

#### NOTE 5. LONG TERM DEBT (SECURED):

	1967	1966
8% Debenture, repayable in monthly instalments of \$15,800 to September 1971 . . . . .	\$ 623,200	\$ 884,800
8% Subordinated demand debenture, repayable in quarterly instalments of \$31,250 to December 1971 . . . . .	500,000	—
Non-interest bearing advance under contract, repayable in monthly instalments of \$5,656 . . . . .	217,446	283,032
3% Debenture due December 1981 . . . . .	140,000	140,000
7% Note, repayable in monthly instalments of \$5,076 . . . . .	232,845	—
6% Note, repayable \$50,000 January 1969 and the balance January 1970 . . . . .	130,000	130,000
Mortgages, repayable in monthly instalments of approximately \$8,300 at various interest rates between 6% and 8% . . . . .	281,752	256,812
7¼% Bank loans, repayable in monthly instalments of \$7,685 . . . . .	231,367	64,167
Sundry notes, conditional sales agreements, etc., repayable in monthly instalments of approximately \$13,500 at various interest rates between 5% and 10% . . . . .	244,835	556,409
	2,601,445	2,315,220
Less — Payments due within one year included in current liabilities . . . . .	771,402	665,067
Long term debt due beyond one year . . . . .	\$1,830,043	\$1,650,153

Long term obligations which are repayable in United States dollars have been converted to Canadian dollars at the exchange rates in effect on the dates the debts were incurred. The current portion of such obligations has been converted at the rate prevailing at the year end.

## NOTE 6. INCOME TAXES:

Under the provisions of the Income Tax Act the companies are entitled, for tax purposes, to claim depreciation in excess of the amounts recorded in the accounts and to carry forward and deduct certain oil and gas drilling and exploration costs which have been capitalized for accounting purposes. As it is the policy of the companies to claim maximum tax allowances, the amounts claimed for tax purposes are in excess of the related depreciation and depletion charged to earnings. Deferred income taxes have been provided on this excess and are applicable to those future years when allowances for income tax purposes will be less than depreciation and depletion recorded in the accounts.

Certain subsidiaries had, prior to acquisition, tax loss carry forwards available which were deducted in determining taxable income in 1966. As a result the provision for current income taxes was reduced by approximately \$250,000 in 1966.

In prior years the Company did not provide deferred income taxes applicable to profits on aircraft disposals. The result was that the provision for deferred income taxes to December 31, 1966 was \$74,200 less than would otherwise have been provided. An adjustment to reflect deferred income taxes was recorded in the accounts during 1967 by charging retained earnings. Although this adjustment was made to retained earnings in the current year, for comparative purposes the 1966 income and closing retained earnings figures have been restated from those previously reported to show what the results of operations for 1966 would have been had deferred income taxes been fully provided.

## NOTE 7. CAPITAL STOCK:

Under supplementary letters patent dated September 8, 1967 and December 19, 1967 the authorized capital of the Company was increased by the creation of the following:

- 600,000 additional common shares of a par value of 50c each.
- 142,000 6% cumulative redeemable Class A preferred shares of a par value of \$12.50 each, convertible share for share into common shares at any time between January 1, 1970 and December 31, 1974. These Class A preferred shares may be redeemed at any time after March 1, 1970 at an amount equal to the par value thereof, together with a premium determined at 6% of par value at March 1, 1970 and reducing by .5% each year to March 1, 1982.
- 12,000 6% cumulative redeemable Class B preferred shares of a par value of \$30.00 each, convertible share for share into common shares at any time between January 15, 1969 and January 15, 1973 and ranking equally as to dividends and on winding up with the Class A preferred shares. These Class B preferred shares may be redeemed at any time after March 15, 1969 at an amount equal to the par value thereof, together with a premium determined at 6% of par value at March 15, 1969 and reducing by .5% each year to March 15, 1981.

During 1967 the various classes of capital stock issued were as follows:

	Common Shares			Class A Preferred Shares		Class B Preferred Shares	
	Shares	Par value	Paid in surplus	Shares	Par value	Shares	Par value
Balance, December 31, 1966, as reported	148,823	\$ 74,411	\$413,292	–	\$ –	–	\$ –
Issued in exchange for shares:							
Boundary Drilling Ltd.	75,000	37,500	–	100,000	1,250,000	–	–
Accurate Exploration Ltd.	37,500	18,750	–	42,000	525,000	–	–
Foothills Aviation Limited	12,000	6,000	134,000	–	–	12,000	360,000
	273,323	136,661	547,292	142,000	1,775,000	12,000	360,000
Issued for cash under options exercised:							
Non-employees	16,000	8,000	64,000	–	–	–	–
Employee	500	250	2,000	–	–	–	–
Eliminations under "pooling of interests" (Notes 1 and 8)	–	–	(613,292)	–	–	–	–
Balance, December 31, 1967	289,823	\$144,911	\$ –	142,000	\$1,775,000	12,000	\$360,000

The following warrants and an employee's option are outstanding as at December 31, 1967:

Warrants –

60,000 entitling holders to purchase one common share for each warrant at \$8.50 per share during the period from July 1, 1968 to June 30, 1973 at the rate of 12,000 common shares per year on a non-cumulative basis.

4,000 entitling holders to purchase one common share for each warrant at \$20.00 per share during the period from December 1, 1968 to November 30, 1973 at the rate of 800 common shares per year on a non-cumulative basis.

Employee's option –

Entitling an employee to purchase 500 common shares at \$4.50 per share at the rate of 250 common shares per year in 1968 and 1969 on a cumulative basis.

The Company has reserved 218,500 common shares for the possible conversion of preferred shares and exercise of outstanding warrants and options.

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#### NOTE 8. RETAINED EARNINGS:

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The balance of consolidated retained earnings as at December 31, 1966 was restated as follows:

Balances, December 31, 1966:

Kenting Aviation Limited . . . . .	\$ 453,417	
Boundary Drilling Ltd., Accurate Exploration Ltd. and portion of Foothills Aviation Limited applicable to "pooling of interests" (Note 1) . . . . .	1,307,756	
		1,761,173

Less – Excess of par value of Kenting capital stock issued over the stated value of the outstanding capital stock of the acquired companies, determined as follows:

Par value of shares issued –

Common . . . . .	\$ 62,250	
Class A Preferred . . . . .	1,775,000	
Class B Preferred . . . . .	360,000	

2,197,250

Paid in surplus . . . . . 134,000

2,331,250

Cost of shares purchased and merger costs . . . . . 542,368

2,873,618

Less – Cost of shares purchased . . . . . 500,000

2,373,618

Stated value of shares exchanged . . . . . 373,444

Excess . . . . . 2,000,174

Excess charged to paid in surplus (Note 7) . . . . . 613,292 1,386,882

374,291

Less – Adjustment with respect to prior years' deferred income taxes (Note 6) . . . . .

74,200

Restated balance, December 31, 1966 . . . . . \$ 300,091

The 1966 retained earnings shown in the comparative balance sheet are \$276,459. The difference of \$23,632 results from the elimination on pooling of paid in surplus of \$66,000 attributable to the sale of common shares for cash in 1967 (Note 7) less merger costs of \$42,368 incurred in 1967.

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#### NOTE 9. CONTINGENT LIABILITIES:

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The company and its subsidiaries have guaranteed the indebtedness of others in the amount of \$81,200.

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#### NOTE 10. DIVIDENDS:

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Under the terms of issue of the Class A and Class B preferred shares payment of dividends, except stock dividends, on the common shares is subject to certain restrictions. In accordance with these terms the amount available for payment of dividends on common stock is not less than the retained earnings shown in the consolidated balance sheet as at December 31, 1967.

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#### NOTE 11. REMUNERATION OF DIRECTORS AND OFFICERS:

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Included in administrative expenses for 1967 is remuneration paid to directors, including senior officers, of \$255,543.

## FOUR YEAR EARNINGS SUMMARY "Pooling of Interests"

1. The figures shown below have been restated from those previously reported by combining the accounts of Kenting Aviation Limited, Boundary Drilling Ltd., Accurate Exploration Ltd., and Foothills Aviation Limited on a "pooling of interests" basis explained in Note 1 to the financial statements.
2. Certain subsidiaries had, prior to acquisition, tax loss carry forwards available which reduced taxable income in 1966, 1965, and 1964. These tax reductions have been set out separately below.
3. Earnings attributable to common shares is based upon the weighted average number outstanding (after giving effect to common shares exchanged for Boundary, Accurate and Foothills) during each year and after providing for dividends on preferred shares of \$128,000, although preferred dividends were not paid until 1967 and amounted to only \$3,000. For purposes of the calculation deferred income taxes include those in respect of operations and special items. Provision has not been made for possible future conversion of preferred shares or exercise of warrants as outlined in Note 6 to the financial statements.

	1967	1966	1965	1964
Revenue . . . . .	\$8,311,000	7,658,000	6,620,000	4,750,000
Cost of operating . . . . .	5,556,000	5,062,000	4,306,000	3,573,000
Administration and general . . . . .	1,007,000	841,000	603,000	445,000
Interest on long term debt . . . . .	141,000	95,000	89,000	75,000
Current income taxes before reduction (Note 2) . . . . .	70,000	379,000	310,000	110,000
	6,774,000	6,377,000	5,308,000	4,203,000
	1,537,000	1,281,000	1,312,000	547,000
Depreciation and depletion . . . . .	535,000	532,000	559,000	344,000
Special items — Net of deferred income taxes . . . . .	(109,000)	25,000	50,000	(80,000)
Portion of net income of pooled companies applicable to purchase . . . . .	70,000	49,000	37,000	56,000
	496,000	606,000	646,000	320,000
	1,041,000	675,000	666,000	227,000
Deferred income taxes . . . . .	357,000	149,000	212,000	1,000
	684,000	526,000	454,000	226,000
Income tax reduction (Note 2) . . . . .	—	250,000	210,000	40,000
NET INCOME FOR THE YEAR . . . . .	\$ 684,000	776,000	664,000	266,000
Preferred stock dividends (Note 3) . . . . .	\$128,000	128,000	128,000	128,000
Earnings attributable to each common share (Note 3) —				
Before deferred income taxes and income tax reduction . . . . .	\$3.58	2.31	2.45	.82
Before income tax reduction . . . . .	2.00	1.60	1.45	.44
On net income . . . . .	2.00	2.60	2.39	.61
Weighted average number of common shares outstanding . . . . .	277,823	248,912	224,500	224,500

## FOUR YEAR EARNINGS SUMMARY

	“Pooling of Interests” Basis	As previously reported to shareholders		
	1967	1966	1965	1964 (Note)
Revenue . . . . .	\$8,311,000	1,553,000	1,284,000	1,014,000
Cost of operating . . . . .	5,556,000	1,161,000	964,000	863,000
Administration and general . .	1,007,000	97,000	47,000	34,000
Interest on long term debt . .	141,000	30,000	23,000	7,000
Current income taxes . . . . .	70,000	8,000	14,000	4,000
	6,774,000	1,296,000	1,048,000	908,000
	1,537,000	257,000	236,000	106,000
Depreciation and depletion . .	535,000	199,000	168,000	101,000
Specials items – Net of deferred income taxes . . . . .	(109,000)	(36,000)	(3,000)	(55,000)
Portion of net income of pooled companies applicable to purchase . . . . .	70,000	–	–	–
	496,000	163,000	165,000	46,000
	1,041,000	94,000	71,000	60,000
Deferred income taxes . . . . .	357,000	15,000	25,000	–
NET INCOME FOR THE YEAR .	\$ 684,000	79,000	46,000	60,000
Weighted average number of common shares outstanding .	277,823	124,411	100,000	100,000
Earnings attributable to each common share –				
Before deferred taxes . . . . .	\$ 3.58	.99	.73	1.21
After deferred taxes . . . . .	2.00	.63	.46	.60
Common share dividends –				
Per share . . . . .	30c	30c	30c	15c
Aggregate . . . . .	\$ 63,997	37,324	30,000	15,000
Class A Preferred share dividends –				
Per share . . . . .	2.2c	–	–	–
Aggregate . . . . .	\$ 3,210	–	–	–

Note: 1964 has been adjusted to reflect deferred income taxes on aircraft disposals included in special items.





